

Fulcrum

ISSUE 78 - DECEMBER 2, 2013 - THE STRATEGY OF CRISIS

covert redistribution.

f.fukuyama

Fulcrum: *Financial crises rationalise the internal inconsistencies of capitalism, but they also historically have tended to produce new spheres of investment and new forms of power relations. Since its emergence, neoliberalism has been founded on a logic of debt aimed at reducing the future and its possibilities to current power relations. Can you foresee a rupture in the reliance on debt in modern economies, or have we reached something of an endpoint?*

Francis Fukuyama: The financial world has modernised so much faster than the real economy, and that's part of the problem; the technological capabilities for moving financial assets across borders, within borders, and repackaging them in novel ways have developed extremely rapidly. Theoretically, a democratic society or group of democratic societies could get this under control with the right regulation, but the rate at which the political institutions adjust to these new changes is always slower. As a result, they're forced into playing catch up, which doesn't address the problem. Although the financial crisis was a big wake-up call that demonstrated the need for more and stronger regulation, it hasn't happened yet.

The other important aspect in the United States is that the political power of the financial sector is so great, and this crisis hasn't really broken that power – this is probably also true for Britain, though less true in continental Europe, Japan or Korea.

Therefore we have a crisis of representation, because that sector is being overrepresented. And because it's such a lucrative one, it attracts a lot of human capital and talent, which has had so many distorting effects, both on the political system and socially. This is by no means a new thing, nor is this the first time this has occurred to people. However, whether we're ever going to walk our way back from it, I don't know.

F: *It's remarkable the speed at which the financial sector, especially in Britain, consolidated power after the 2007-8 crash. There has not been a weakening, but a reinforcement of the total primacy of economic rhetoric within the political sphere.*

On your point regarding the crisis of democracy and the question of representation: we've certainly seen attempts to rebalance or redress this over-representation by the financial sector in politics – whether actually, with movements like Occupy, or notionally, through the spirit of 'change' at the core of Obama's 2008 campaign. Their failure begs the question, is democratic reform possible?

FF: There's no reason why reform couldn't happen under the right leadership. Oftentimes in democracy it really takes a very severe crisis for people to get stirred up enough, to mobilise and argue for very different policies. That's what happened throughout the Western world in the 1930s following the collapse of the banking system. That mobilisation led to both good and bad results. I think it led to good results with the rise of Roosevelt, the New Deal and the American welfare state. It led to very bad results in Austria, Germany and others, where right wing nationalism thrived as a result of economic instability. In the US today, what happened was that the crisis simply wasn't severe enough.

By 2008 the policy-makers had learnt the lessons from the 1930s, and they strategically put a floor under the scale of destruction.

In the 1930s US unemployment rates were in excess of 20%. Post 2008 they got up to maybe 10%, and then have been coming down very slowly since then. The shock to the system, although great, was not really big enough to create a big reaction, although we've certainly seen a lot more populism all over Europe and the US. Unfortunately, this more typically takes the form of right wing, rather than left wing, populism. In principle, it can happen, but the circumstances are not such that it was able to happen after 2008.

F: *Many of the steps taken after 2008 by governments only served to accelerate wealth redistribution – particularly quantitative easing, the printing of new money, which artificially propped up the markets, and the primary agents of the markets. Have we begun to address the structural issues that caused the crash, or simply papered over them?*

FF: I don't think the authors of those policies believe themselves that they deal with the deeper structural flaws.

Everyone sees current monetary policy as a stopgap, one that is going to have to end at a certain point. It's quite apparent that there are much bigger issues, which are driving long-term unemployment and which relate to the crisis of middle-class skills. Because of the march of technology a lot of jobs that existed 50 years ago are now gone.

Practically every developed country has suffered from deindustrialisation, though it's more severe in Britain than many other parts of the world. That's the underlying structural reality, and the problem is that no one really has a good idea of how to fix that. To go back to the welfare state solutions aren't viable; the welfare state was only viable at the time because there was a growing and strong middle-class, built on manufacturing. That's not there any more. It therefore becomes much harder to maintain that type of a system.

F: *From the mid-70s onwards wages, in real terms, have stagnated. The difference between previous levels of wage growth and the stalled line was made up with increased levels of personal and household debt, mostly founded in the housing markets – extended lines of credit based on assumed equity in one's home, founded on a property market anticipated to always rise. Of course, this couldn't happen forever and the failure of 2007 is in a way the failure of property as a reliable asset. Presumably, the problem underpinning the crisis is not just the obsolescence of the middle-class productive labour, but a more general inability to find a new source for stable wage growth?*

FF: In the United States we don't like to do a lot of overt redistribution, so we had to covertly support the poor through subsidised mortgages, which was a pretty disastrous way of doing business in the long run. It was very inefficient and it fed this enormous housing bubble. To some extent we're still trying to do it, because when you've got the sort of inequalities as we have today it's very hard to wean your way off these types of policies. At the time they seemed like a good market-friendly option. You couldn't give people outright subsidies – that might undermine their incentives to work. So you helped them establish middle-class homes and families using market mechanisms. But it didn't work very well.

F: *Yet there doesn't seem much political appetite to explore alternative models.*

FF: I'd say the prior problem is an intellectual one. It's not really clear what the alternatives are. I do think that one big crisis of the left has been that it hasn't really formulated a plausible alternative as a viable political programme.

F: *This coincides with the failure of avant-gardes, which represent alternatives to current social power relations. In the last few decades architecture has employed increasingly sophisticated metrics to measure financial performance of designs. This has meant once an architect produces a style that is commercially successful, like Frank Gehry or Zaha Hadid, they get locked into producing it forever. Are the metrics of profit intrinsically opposed to meaningful aesthetic, cultural or political progress?*

FF: I wouldn't say anything is intrinsic. Part of what may be happening in architecture is this winner-takes-all phenomenon you see in other domains, like sports or the arts. A hundred years ago Gehry would have been a local architect in one city. Now that architecture, like everything else, has become globalised, his fame spreads everywhere and he displaces second- and third-tier architects far afield from his home country. The result is less diversity and more concentration around a few styles. It's not just architecture that is suffering from this; it's part of a broader phenomenon.

F: *There doesn't seem to be an obvious escape from the endless commercial recycling of epochal aesthetics. Though to be accurate, there is no lack of avant-gardes on the right – but do you think movements like Occupy can point to a new leftist vanguard?*

FF: I'm sceptical. It's all just tactics for mobilisation; there's no consensus about what to do once people are mobilised. If the left actually put forward a proposal for how to regulate international banking that would be a meaningful contribution. I've not seen that.

Over the last generation a lot of the left has become incoherent. It's got scrambled by identity politics, developed an extremely diverse agenda and lost focus on economic issues.

Francis Fukuyama is an economist and professor of political science at Stanford. His most well-known book is *The End of History and the Last Man*.



John Soane's Bank of England under demolition, 1920s
Described by Pevsner as 'the greatest architectural crime in the City of London of the twentieth century.'